THE MAGAZINE FOR GROWING COMPANIES

Inc.

JULY 1984
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COOKIE WARS

It takes more than the right recipe to compete in a tough market

THE ROLE OF THE FOUNDER

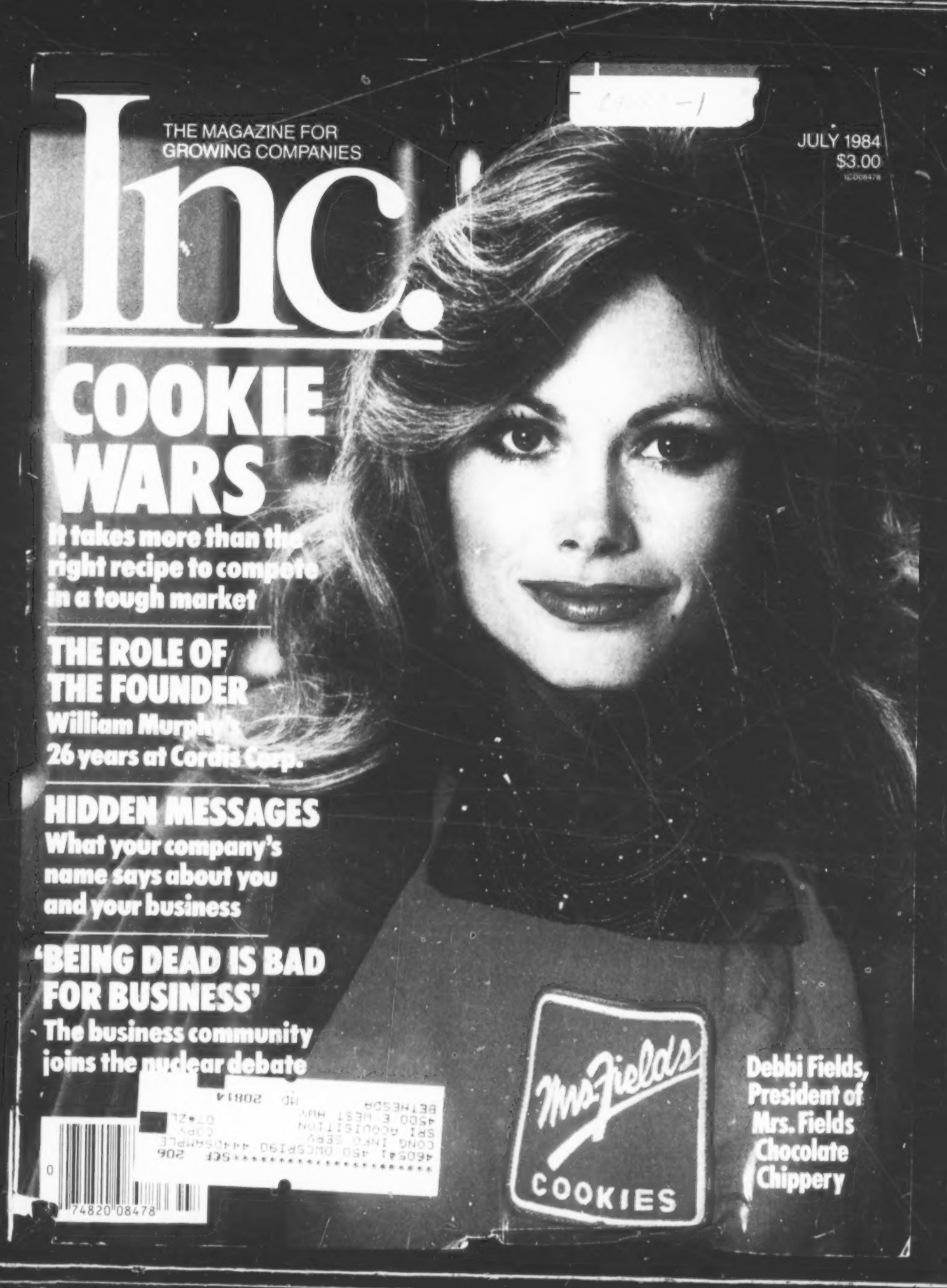
William Murphy's 26 years at Cordis Corp.

HIDDEN MESSAGES

What your company's name says about you and your business

'BEING DEAD IS BAD FOR BUSINESS'

The business community joins the nuclear debate



Debbi Fields, President of Mrs. Fields Chocolate Chippery

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between how good an investment is and how much money the broker will make." If you want to use a scout, of course, you will have to pay him, too—one way or another. Stolper and a few others work independently and charge a fixed rate for their services; Stolper's is a $1,500 one-time fee for finding an adviser, plus $500 a year for monitoring. Other scouts, such as Daniels, Goldman, and Brown, are connected to brokerage houses. Although they charge no direct fee for their services, they expect to make money on commissions from trades ordered by the managers they recommend.

What you pay, however, is less important than what you get for your money. "Entrepreneurs are so busy making money," laughs Marilyn Cohen, "that they sometimes forget about the money they have, which is sitting around doing nothing." If you can change that situation, it can't help but be a change for the better.

INVESTING FOR COLLEGE

College degrees, you may have noticed, are not coming cheap these days. Costs at both public and private four-year colleges have more than doubled in the past 10 years, and are still on the way up. The smarter your child, the bigger the bills may be. Next year, parents of Harvard students will pay $14,100 for tuition, room, and board, plus money for books, incidentals, and holiday plane fare home. Other top-tier schools are comparable.

Suggestion No. 1: If your children are young enough, set aside the funds for their education now. Your children's future shouldn't depend on how the economy or your business is shaping up when they are ready for college.

Suggestion No. 2: Fund the prospective tuition bills with zero-coupon bonds. First, project what you think college costs are likely to be when your children are ready for college. Then, based on those projections, buy the appropriate quantity of zeros (see box, right).

Zero-coupon bonds are just what their name implies: bonds with no semiannual coupons to clip. Instead of paying interest every six months, they in effect pay their interest all at once, when the bonds mature.

That means you pay a lot less for a zero than you would for a conventional bond. Recently, for example, you could have bought a $10,000 Allied Chemical Corp. zero, maturing in October 1992, for $3,500. An ordinary eight-years-to-maturity bond with a similar yield to maturity would cost about $6,600.

Zeros also let you lock in today's interest rates. The yield to maturity quoted on ordinary bonds assumes that you reinvest the bonds' coupons at the same rate as when you bought the bonds. But if maturity is some years away, it is hard to know how much you will wind up with. Not so with zeros.

> With college costs increasing, investing in zero-coupon bonds now will give you the money to pay your child's tuition bills when they start arriving.

Put together, these features allow for pinpoint planning. Have an eight-year-old due to enter college in 1994? Buy $21,600 worth of zeros today, and you will have the $75,000 that you will probably need to put him or her through a typical four-year private college.

Zeros have been touted as good investments for individual retirement accounts and other retirement plans. There is a reason for that: Buy them outside of a tax-sheltered plan and you are liable for taxes on the imputed income. This leaves you in the unhappy situation of paying taxes on money you haven't seen.

Earmarking the bonds for college, however, means that you can put them in your child's name. Under the Uniform Gifts to Minors Act, you can give your child (or grandchild, for that matter) up to $10,000 a year in cash or securities ($20,000 if the gift is from a couple) without paying federal gift taxes. Income from the investments is then taxed at the child's tax rate, which may well be zero. And although the assets become the child's once he reaches legal age, you can use them in the meantime for any purpose (other than paying for necessities) that redounds to the child's benefit. College counts in that category.

The only real risk with corporate zero-coupon bonds is the chance that the issuing company will go bankrupt before the bond matures. To get around that problem, several major brokerage houses have found a way to turn U.S. government obligations into zero-like assets. They package long-term Treasury bonds, strip off the coupons, and sell investors receipts representing the bonds' future interest and principal payments. The effect is the same as with corporate zeros.

Merrill Lynch Capital Markets, the first firm to offer these investments, called its product TIGRs, for Treasury Investment Growth Receipts. Soon after Merrill's introduction, Salomon Bros. Inc and Shearson Lehman/American Express created a virtual menagerie with their own tongue-in-cheek-labeled versions: CATS, for Certificates of Accrual on Treasury Securities, from Salomon, and LIONs, for Lehman Investment Opportunity Notes, from Shearson Lehman. Most brokers can purchase any of these feline fineries for you—or any of the less imaginatively named but similar products packaged by other big houses.

For longer-term investments, packaged Treasuries may be the best bet. "The bond market is so skittish now that the spread between the yield on a good-quality corporate zero-coupon bond and the yield on a Treasury zero-coupon bond is very small," advises Richard Whitman, vice-president at the New York brokerage firm of Oppenheimer & Co. "Why take additional risk when you can have a guarantee from the U.S. government?"

If you do use zero-coupon bonds to save for your child's college education, don't count on their maintaining value in the meantime: As with all bonds, rising interest rates will undermine their market value. But if you have timed their maturities appropriately, they will recover that value in time for you to ship the money off to the ivy-covered walls.

Now, about graduate school. . .

—Lisa R. Sheeran

FINANCING COLLEGE COSTS

The table below shows the projected cost of a typical public and private four-year college education, along with the amount you need to invest in zero coupon bonds today (at slightly more than 12%) to earn what you will need later. The projected college costs assume that college expenses increase 6% annually—slightly higher than the rate of inflation over the past several

	Projected cost (4 years)*	Investment required
PUBLIC COLLEGES		
In 5 years	$28,800	$15,700
In 10 years	38,500	10,970
In 15 years	51,600	8,250
In 18 years	61,400	6,860
PRIVATE COLLEGES		
In 5 years	56,000	30,400
In 10 years	75,000	21,600
In 15 years	100,400	15,850
In 18 years	119,500	13,400

*All figures rounded

Source: T. Rowe Price Associates Inc

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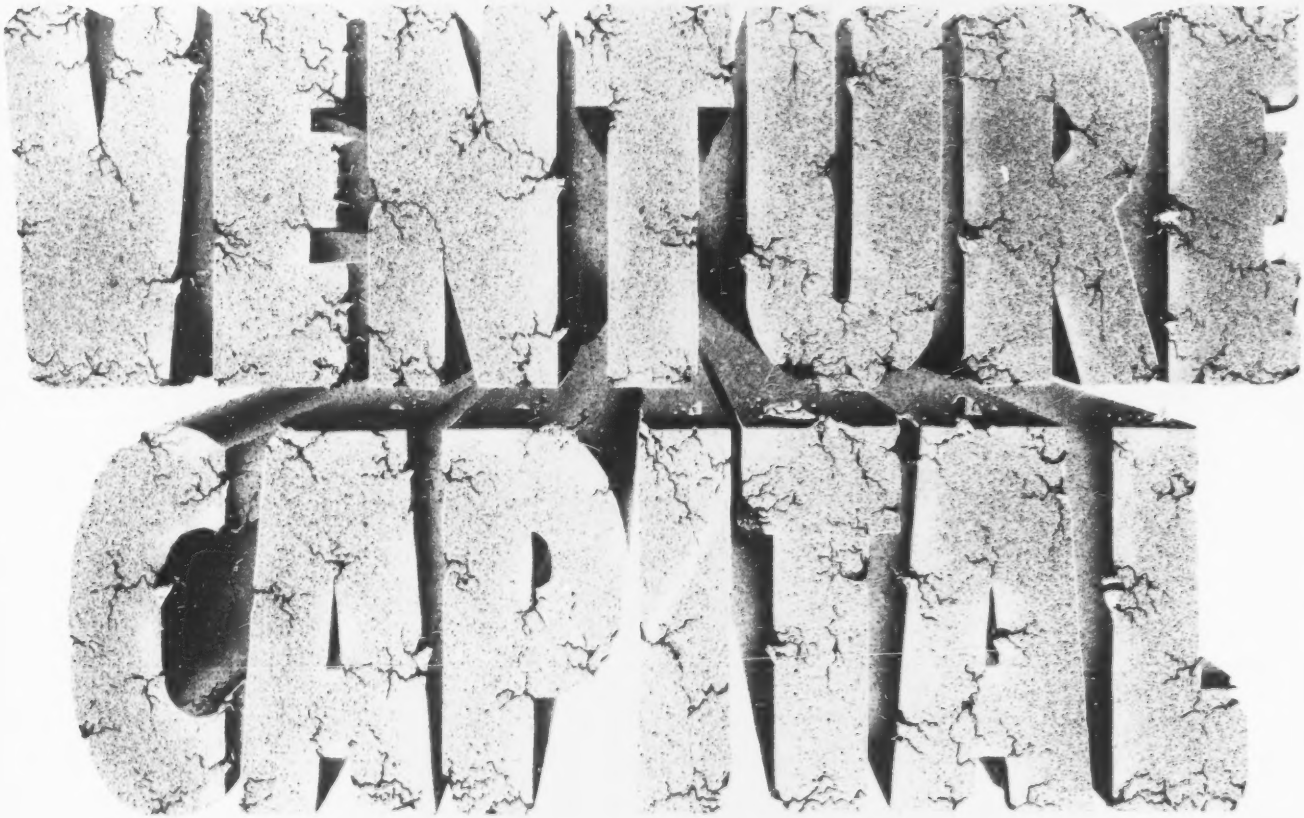
A SPECIAL REPORT
How the venture capital boom is "leading to disaster"

Why smart companies are saying NO to



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Cover illustration
Bruce Sanders

Is this the way it usually works?

One of Kentucky's local marketing groups recently invited me to talk about Maker's Mark and what's causing the sudden national interest in our whisky.

I started to tell them how Maker's Mark was the realization of a dream my father had to make his own kind of whisky. His was to be a soft-spoken whisky, handcrafted in very small quantities the time-honored way.

Until recently, Maker's Mark was considered one of Kentucky's best-kept secrets. Then, suddenly, it was discovered by the rest of the country.

What the group really wanted to know, however, was what marketing strategy was behind this phenomenon.

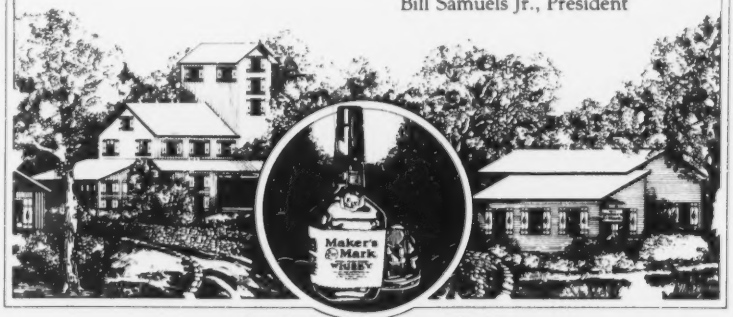
One person wanted to know if we were using life-style trend research to target the up-scale consumer market. Another person wanted to know if we were using premiums and incentives like tee-shirts, belt buckles and what they call "good-buddy" caps with our name on them to reinforce brand loyalty. And still another person wanted to know if we were actively pursuing celebrity endorsements by big-name country and western entertainers.

The more they talked, the more confused I became. We just don't do any of that. And because we don't, I think we sort of confused them. In fact, by the time it was over, they seemed to be mystified as to what's behind the growing interest in Maker's Mark. Since I was the group's guest speaker, I felt sort of obligated to try and provide them with "The Answer." But the best I could do was another question:

Could it be the whisky?

Bill Samuels, Jr.

Bill Samuels Jr., President



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THE HIGH-TECH DREAM WON'T COME TRUE

It isn't just the transition from smokestack to silicon that's troubling the American economy. The real issue is managers' capability to produce.

By Seymour Melman

Don't worry, the optimists tell us, America is just in a period of industrial transition—from smokestack to high technology. The changeover, as painful as it may be, will soon bring the country back to prosperity.

That is a nice high-tech dream, but an increasing accumulation of evidence suggests that it won't come true. To understand why, it helps to appreciate the full meaning of the economic and technical decay affecting many U.S. industries.

Look, for example, at the proportion of the goods recently consumed by Americans that was supplied from abroad. The numbers in the accompanying chart (see page 14)—from a sampling of important industries—reflect not only money flow, but also the approximate decline in U.S. employment in these and related industries: more than 2 million jobs lost, *permanently*. Against this loss we should consider estimates by the Bureau of Labor Statistics that computer and computer-related industries will, by 1990, generate only 500,000 new jobs. Note the 1.5-million difference.

Even if high technology could create more new jobs, heavy demands from the military impose a major constraint on the continued expansion of electronics-based industries. Indeed, in 1982, the trade magazine *Electronics* judged that "The nation's electronics industries do not have the technological skills and experience to meet military requirements and at the same time cope successfully with competition from corporations in West Europe and Japan—allies all—in the burgeoning consumer, computer, telecommunications, and test equipment markets."

It is alarming that high-tech industries are already showing the familiar signs of decay—the same pattern of decline that we saw in American smokestack industries. Large and small U.S. electronics companies are:

- ☐ subcontracting component production abroad; or
- ☐ investing, either by themselves or in partnership with foreign companies, in overseas plants to manufacture complete products designed and marketed in the United States; or even
- ☐ moving all design, engineering, and manufacturing operations overseas.

Consider, for example, the IBM Personal Computer. Its cathode ray tube assemblies are made in Taiwan and Korea. Its circuit boards are also assembled outside the United States, and recently IBM Corp. announced it would subcontract the disk drive in Hong Kong. Last year, IBM arranged for Matsushita to produce a complete PC in Japan for sale in the Middle East and some European markets. While these schemes yield short-term cost advantages, and conveniently bypass production problems, they also produce fewer job opportunities in the United States.

Finally, the extraordinary attention given to computers and allied equipment in the business press tends to obscure the fact that computers are essentially control and communications devices—production aids. By themselves they produce nothing, and having more computers benefits us little if the industrial production they are intended to modernize has all moved abroad.

High-tech industries are already showing signs of decay, says Seymour Melman.

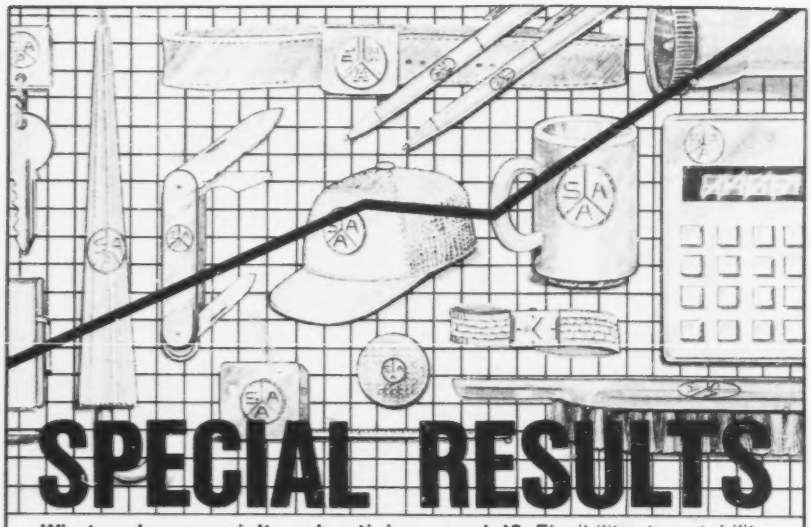
Part and parcel of American industrial decay has been a change in the culture of American managers. Before World War II, the U.S. style of industrial management celebrated cost-minimizing, manufacturing competence, long-term investments, and a growing U.S. production base. After the war, a transformation occurred. Cost-minimizing was replaced by cost-maximizing, particularly in the network of 37,000 companies oriented to military production. Long-term planning and investing were replaced by short-term calculations and financial operations.

Managers' academic training in recent years has emphasized moneymaking—giving stockholders the largest possible short-term return—above all. The result, unintended and unanticipated, has nonetheless been disastrous, for in the pursuit of higher profits, managers have downgraded the importance of making goods. They have found other ways to make money, and they have lost interest in—and the capability for—organizing work.

In effect, managers have unwittingly broken the social contract that for more than a century accorded them decision-making power and generous rewards in exchange for their organization of work—organization that benefited not only their employees but the wider community as well. By placing money above goods, by moving production outside the United States, American managers have sponsored the nation's industrial decay.

Today the overreaching problems of the American economy are not those of market demand or of adequate investment capital. Instead, America's *capability* to produce is now at issue. For the first time in more than a century of American industrialism, the rate of productivity growth has been too small to offset the rise of various costs. Until 1975, U.S. in-

Seymour Melman, a professor of industrial engineering at Columbia University, is the author of Profits Without Production, *published last year by Alfred A. Knopf.*



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dustry paid the world's highest wages. But high wages didn't impede economic and technical competitiveness, because production-oriented managers once knew how to make productivity grow, and how to use productivity growth as a powerful economic tool. By 1980, the United States ranked about tenth in worker wages.

The long-enduring military economy of the United States has played a leading role in depressing the rate of productivity growth. Every year our military economy absorbs more capital than the combined net profits of all U.S. corporations. It is the largest employer of American engineering and scientific talent, yet it produces no products that have ordinary economic usefulness, either for consumption or for further production.

U.S. Consumption Produced Abroad, 1979–80

Product	%
Automobiles	27
Machine tools	25*
Steel mill products	15
Hand-held calculators	47
Desktop calculators	39
Microwave ovens	22
Communications systems & equipment	16
Integrated circuits	34
X-ray and other irradiation equipment	24
Movie cameras (1977)	74
Black & white televisions	87
Sewing machines (1978)	51
Office dictating machines	100
Bicycles	22
Apparel	20
Leather gloves	37
Footwear	45
Flatware	50

*By 1982 this figure had risen to 42%.

Has American industry passed the point of no return? Has our capacity to manage the production process deteriorated so far that we couldn't regain industrial competence even if we tried?

I don't know. People in the producing occupations—blue-collar workers, engineers, technicians, and production managers—have a major stake in ensuring that we have not passed that point. They alone retain a central interest in and capability for organizing industrial work. And they, among all social and economic groups, should be exercising the decision-influencing power they inherently possess. But so long as they and the rest of us fail to recognize the true causes and real depth of what we dismiss as a temporary industrial transition, our sustained economic decline is inevitable. □

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HELL NO, WE WON'T GROW
CEOs make the case for controlled growth

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Cover photo
Walter Bibikow

If you'd like to know more about the way we make whiskey, let us hear from you.

BURNING TENNESSEE HARD MAPLE for charcoal to smooth out Jack Daniel's is a far cry from burning a fire.

Chemists wonder why all this wood doesn't burn to fine ash. But, using Tennessee hard maple and a whole lot of skill, our rickers get charcoal every time. And we pack it into room-high vats to mellow the taste of Jack Daniel's. Just watching this charcoal burn is a nice way to spend idle moments. Discovering how it gentles Jack Daniel's is the nicest moment of all.

CHARCOAL MELLOWED
DROP
BY DROP

Tennessee Whiskey • 80-90 Proof • Distilled and Bottled by Jack Daniel Distillery
Lem Motlow, Prop., Route 1, Lynchburg (Pop. 361) Tennessee 37352
Placed in the National Register of Historic Places by the United States Government.